

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

ADMINISTRATION OF GRANTS BY THE
DEFENSE NATIONAL STOCKPILE CENTER

Report No. 94-162

June 30, 1994

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Department of Defense

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General Accounting Office
Office of Management and Budget



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 30, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Administration of Grants by the Defense National Stockpile Center (Report No. 94-162)

We are providing this final report for your review and comments. The report discusses matters concerning grants administered by the Defense National Stockpile Center. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that the Defense Logistics Agency respond to the unresolved recommendations shown in the section entitled Response Requirements for Each Recommendation at the end of the finding. Recommendations and monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Your comments are requested by September 5, 1994.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9539 (DSN 664-9539). The distribution of this report is listed in Appendix E.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No.94-162
(Project No. 1RE-0068)

June 30, 1994

ADMINISTRATION OF GRANTS BY THE DEFENSE NATIONAL STOCKPILE CENTER

EXECUTIVE SUMMARY

Introduction. Congress appropriated \$117.7 million from FY 1986 through FY 1991 for National Defense Stockpile grants to eight universities, one college, and one nonprofit research activity. The funds were to be used primarily for constructing facilities and purchasing equipment over a 5-year period, beginning FY 1986. The grant funds were appropriated to the National Defense Stockpile Transaction Fund (Transaction Fund) to be administered by the Defense National Stockpile Center (the Stockpile Center). Each of the appropriations establishing the grants cited provisions of the Strategic and Critical Materials Stock Piling Act (the Act) that cover material development and research and the Transaction Fund.

Objectives. The audit objectives were to determine whether the use of the grants was consistent with the Act and whether the Stockpile Center effectively administered the grants.

Audit Results. For 3 of the 11 grants reviewed, grant documents did not implement the provisions of the appropriations acts establishing the grants; documents for 5 grants implemented the provisions of the applicable appropriations acts; and compliance with the applicable appropriations acts for the remaining 3 grants was undeterminable. Five of ten grant recipients (one recipient had two grants) did not comply with Office of Management and Budget directives when charging expenditures to grant funds. Further, ongoing and planned research was not coordinated with the Federal agency responsible for minerals research. As a result, about \$13.8 million in grant funds was not expended in accordance with the appropriations acts, and about \$2.4 million was not used pursuant to Federal guidelines.

Internal Controls. The audit identified internal control weaknesses. The Stockpile Center had not established an internal management control program for the administration of grants as required by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Also, procedures had not been established to verify that grant funds were used for purposes specified in the appropriations acts. The weaknesses are described in the finding. Details on the controls reviewed are provided in the Internal Control section in Part I of this report.

Potential Benefits of Audit. The audit identified \$2.4 million of questioned costs (see Appendix C) related to not using grant funds in accordance with Federal regulations. Better oversight and management of grants will also occur. Details are in Appendix C.

Summary of Recommendations. We recommended amendments to grant agreements to bring them into compliance with appropriations acts. Also, we recommended recovery of grant funds that were not used in accordance with Office of Management and Budget guidance or Defense National Stockpile Center procedures. We further

recommended that procedures be established for the review of grant expenditures and for the coordination of research with the Department of the Interior and that the provisions of DoD Directive 5010.38 be implemented.

Management Comments. The Defense Logistics Agency agreed to require grants to have specific plans that implemented the applicable appropriations acts. The Defense Logistics Agency stated it would obtain more documentation related to \$2.2 million of expenditures, collect \$46,891 and that \$156,716 of expenditures were valid. The Defense Logistics Agency also stated that for the grants cited in the report there was no need to coordinate with the Department of the Interior and the Interagency Advisory Committee on research grants in support of the National Defense Stockpile. Further, the Defense Logistics Agency agreed to establish an internal control program that included grant administration and to establish procedures to verify that grant funds were used in accordance with the appropriations acts and Federal regulations.

We believe that additional management actions are still needed to ensure that the grants are properly managed. We stand by our audit conclusions. A discussion of management comments and audit responses is in Part II of the report. The complete text of management's comments is in Part IV. We ask that the Defense Logistics Agency provide additional comments on the final report by September 5, 1994.

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Part I - Introduction

Background

Research on Strategic and Critical Materials. The Strategic and Critical Materials Stock Piling Act (U.S.C., title 50, section 98) (the Act) authorized the establishment of the National Defense Stockpile (the Stockpile). The Act also prescribed policies and procedures for managing the Stockpile, including the operation of the National Defense Stockpile Transaction Fund (Transaction Fund) and research on ores and critical materials.

Section 8 of the Act directs the President to:

. . . make scientific, technologic, and economic investigations concerning the development, mining, preparation, treatment and utilization of ores and other mineral substances that (A) are found in the United States, or in its territories or possessions, (B) are essential to the national defense, industry and essential civilian needs of the United States, and (C) are found in known domestic sources in inadequate quantities or grades.

(2) Such investigations shall be carried out in order to (A) determine and develop new domestic sources of supply of such ores; (B) devise new methods for the treatment and utilization of lower grade reserves of such ores and mineral substances; and (C) develop substitutes for such essential ores and minerals products

Section 8 also provides that the President shall:

. . . encourage the conservation of any material determined pursuant to section 3(a) [of the Act] to be a strategic and critical material by making grants or awarding contracts for research regarding the development of (1) substitutes for such materials; or (2) more efficient methods of production or use of such materials

Responsibilities of the Executive Departments. The President designated the Secretary of Defense as the manager of the Stockpile by Executive Order 12626 (the Order), February 25, 1988. The Order made the Secretary of Defense responsible for all functions specified in the Act, except for special disposal of critical ores and minerals, the importing of critical ores and materials, and development and research of materials. The President retained responsibility for disposing of and importing critical ores and materials and made the Secretary of the Interior responsible for minerals development and research. The Secretary of Agriculture was made responsible for the development and research of agricultural products in the Stockpile. The Secretary of Defense designated the Defense Logistics Agency as the Stockpile Center Administrator. The Defense Logistics Agency established the Defense National Stockpile Center (the Stockpile Center) to administer the Stockpile.

Use of the Transaction Fund. Section 9 of the Act established the Transaction Fund in the U.S. Treasury as the repository for all funds from the sale of materials in the Stockpile. The Transaction Fund is administered by the Stockpile Center. Materials needed for the Stockpile are to be purchased using moneys in the Transaction Fund. Also, moneys in the Transaction Fund can be

used for developing specifications for Stockpile materials, upgrading existing materials in the Stockpile to meet current specifications, testing of Stockpile materials, and determining future material and mobilization requirements for the Stockpile.

Objectives

The audit objectives were to determine whether the use of grant funds was consistent with the Act and whether the Stockpile Center effectively administered the grants.

Scope and Methodology

Audit Scope. For the 11 grants valued at \$117.7 million, we evaluated documentation available at the Stockpile Center and at 8 of 10 grant recipient (one grant recipient received 2 grants) locations. We contacted the Bureau of Mines (the Bureau), Department of the Interior, because it was responsible for minerals development and research in support of the Stockpile. We did not do audit work at the University of Massachusetts or the University of Hawaii, two of the grant recipients, because authorized facility construction work either had just started or was still in the preliminary planning phase. A list of organizations visited or contacted is in Appendix D.

Audit Methodology. We reviewed the appropriations acts that established each of the grants and supporting documentation, dated from September 1985 through May 1993, submitted to Congress and the Stockpile Center by the grant recipients. At the Stockpile Center, we reviewed available documentation to determine the status of each grant as of September 30, 1991, and whether the grants were administered in accordance with applicable public laws and Office of Management and Budget (OMB) directives. We interviewed officials at the organizations that received grants to determine how the grant funds were being used and audited accounting records, dated from November 1986 through February 1992, to determine whether accurate information was being reported to the Center and whether all costs charged to grant funds were proper. We did not audit the indirect cost rates used by three grant recipients because the cognizant Federal agency had approved the rates. Additionally, we did not rely on computer-processed data to arrive at audit conclusions.

Audit Period and Standards. This performance audit was done from September 1991 through April 1992 and from June 1993 through November 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered

Introduction

necessary. From June 1993 through November 1993, we performed additional work as a result of Defense Logistics Agency comments, which contained new information on our initial draft report.

Internal Controls

We assessed the Stockpile Center's implementation of the DoD Internal Management Control Program as it applied to the administration of grants. The assessment identified internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The Stockpile Center had not implemented an internal management control program for the administration of grants as required by the Directive and Defense Logistics Agency Regulation 5010.4, "Internal Management Control Program," October 12, 1990. Also, procedures had not been established to verify that grant funds were used for purposes specified in the appropriations acts. Details are provided in the finding.

Recommendations 1.a., 1.b., 1.c., 1.d., 3., and 5. in Part II of this report, if implemented, will help correct the weaknesses. No quantifiable monetary benefits will be realized by implementing those recommendations. A summary of monetary and nonmonetary benefits is in Appendix C. A copy of the final report will be provided to the senior official responsible for internal controls within the Defense Logistics Agency. State auditors or independent auditors assessed internal controls during required annual audits and concluded that each of the grant recipients' internal control programs was sufficient.

Prior Audits and Other Reviews

In response to a letter from Senator Robert C. Byrd, the General Accounting Office (GAO) issued a letter report on September 6, 1989. The report discussed GAO's review of the status of research projects funded through the Transaction Fund by the "FY 1989 Treasury, Postal Services, and General Government Appropriations Act." The research projects were at five universities (Universities of Texas at El Paso, Hawaii, Idaho, and Utah, and Loyola College in Maryland). At the time grants for those projects were appropriated, the Stockpile Center was a component of the General Services Administration. The report contained no findings or recommendations.

Other Matter of Interest

The DoD was required by the appropriations acts to provide grants through the National Defense Stockpile Transaction Fund and to expend resources to administer those grants that do not foster the objectives of DoD programs supporting the Strategic and Critical Materials Stock Piling Act and that are outside the Defense National Stockpile Center's area of expertise. A lack of relationship between the grant purposes and program requirements aggravates the conditions that can often result in real or perceived wasteful spending of Government funds. Grant administrators have to follow congressional direction, as specified in the appropriation for each grant, even though the purposes are not commensurate with the research requirements specified in the Strategic and Critical Materials Stock Piling Act.

We did not make recommendations for corrective action related to grants that were not in compliance with the Strategic and Critical Materials Stock Piling Act, because Congress directed that the funds be used for the purposes stated in the appropriations acts. However, this state of conflicting direction creates a dilemma for the Defense National Stockpile Center as the administrator of those grants.

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Part II - Finding and Recommendations

Administration of Grant Funds

For 3 of 11 grants reviewed, grant agreements did not implement the provisions of the appropriations acts establishing the grants; agreements for 5 grants implemented the provisions of the applicable appropriations acts; and compliance with the applicable appropriations acts for the remaining 3 grants was undeterminable. Five of ten grant recipients (one recipient had two grants) did not comply with Office of Management and Budget directives when charging expenditures to grant funds. Also, ongoing and planned research efforts funded by the grants were not coordinated with the Department of the Interior, the Federal agency responsible for minerals research in support of the Stockpile. These conditions occurred because the Stockpile Center had neither awarded grants that specifically reflected the requirements of the applicable appropriations acts nor established procedures to review the grant recipients' expenditures or to verify that planned research was coordinated with the Department of the Interior. As a result, about \$13.8 million in grant funds expended through September 30, 1991, was not used as directed by Congress, and about \$2.4 million in grant funds was not used in accordance with Federal guidelines. Further, funds could be expended for research that may have been previously accomplished or that may not be beneficial to the maintenance and operation of a viable Stockpile.

Background

Congressionally Directed Grants. From FY 1986 through FY 1991, Congress appropriated \$117.7 million to 10 grant recipients to construct and equip research facilities or to do research in support of the Stockpile. Neither the General Services Administration nor DoD requested Congress to appropriate the grant funds. Each of the grants was appropriated to the grant recipients through the Transaction Fund. Two increases, totaling \$9.9 million, to grant funds that had been appropriated to the General Services Administration and the Office of Naval Research were later transferred to the Transaction Fund. The grant recipients reported to the Stockpile Center that as of September 30, 1991, they had spent about \$35 million of the \$117.7 million appropriated.

As the administrator for the Transaction Fund, the Stockpile Center developed standard operating procedures for congressionally directed grants. The procedures contained guidance on assisting grant recipients in completing and obtaining approval for grant applications and on making visits to grant recipients. Also, the Stockpile Center's operating procedures contained provisions for grant recipients to obtain an advance of funds to defray the costs of developing and preparing grant applications. Stockpile Center personnel administering the grants were given Federal guidelines for the management and funding of grants.

Federal Guidelines for Grants. OMB Circular A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations," July 1, 1976, as amended on February 10, 1987, and on November 29, 1993, established standards for consistency and uniformity among Federal organizations for the administration of grants. OMB Circular A-110 contains procedures on applying for Federal grants, reporting financial data and program performance progress, managing property, and making payments to grant recipients. The principles used in determining costs applicable to Federal grants are set forth in OMB Circular A-21, "Cost Principles for Educational Institutions," February 26, 1979, and OMB Circular A-122, "Cost Principles for Non-Profit Organizations," June 27, 1980. Both circulars provide guidance to help ensure that the Federal Government bears its fair share of total costs incurred by educational institutions and nonprofit organizations in performing work for the Government. Also, both circulars specify which costs can and cannot be charged to Federal grant funds.

Compliance with Appropriations Acts and Federal Guidelines

Each appropriations act establishing a grant specified how the funds were to be used. Three of 11 grants were not used for the purposes specified in the appropriations acts. Documents supporting a fourth grant were incomplete and conflicting as to grant purposes. Our review of grant documents pertaining to the University of Arizona, University of Idaho, the University of New Mexico, Loyola College in Maryland, and South Carolina Research Authority showed that grant funds were being used in compliance with the applicable appropriations act.

Of the \$35 million expended as of September 30, 1991, two grant recipients (one recipient had two grants) had charged about \$13.8 million (see Appendix A) to grant funds for purposes not specified in the appropriations acts. The audit also showed that \$2.4 million (\$2.2 million is attributable to one grant recipient) (see Appendix B) either was not allowable under OMB guidelines or was not spent in accordance with the OMB circulars. In addition, there were inaccuracies in the accounting records of two grant recipients. The following paragraphs provide details on the grant recipients' noncompliance with the appropriations acts and on charges to grant funds that are not allowable by Federal guidelines.

University of Nevada at Reno. Grant funds provided by Public Laws 99-190 (FY 1986) and 99-591 (FY 1987) were administered as two separate grants, DN-001 and DN-003, respectively.

Grant DN-001. Public Law 99-190, which provided funds for grant DN-001, states:

For the year ending September 30, 1986, in addition to the funds previously appropriated for the National Defense Stockpile Transaction Fund, pursuant to 50 U.S.C. 98a and g(a)(2)(c) and 50 U.S.C 100(a), notwithstanding the provisions of 50 U.S.C 98h, an

Administration of Grant Funds

additional \$10,000,000 is appropriated to remain available until expended, for a grant to construct Phase II of the Mines Building at the Mackay School of Mines, University of Nevada Reno, relocate the Generic Center on the Recycling of Strategic Metals, and establish the Policy Center on Strategic Materials, including such equipment as the school deems necessary to the conduct of its activities.

Construction on Phase II of the Mines Building at the Mackay School of Mines, funded by the \$10 million grant, was completed when the auditors visited in December 1991. A review of space assignment documents and of Phase II of the Mines Building showed the Generic Center on the Recycling of Strategic Metals (Generic Center) had been relocated as specified in the appropriations act. However, Phase II of the Mines Building did not house the Center for Strategic Materials Research and Policy Study¹ at the time of the audit. When the auditors inquired about the Center for Strategic Materials Research and Policy Study, they were shown an area to store equipment in the basement of the new facility and were told the space would house the Center for Strategic Materials Research and Policy Study if and when it was established. The grant recipient did not have and grant documents did not contain specific plans of actions to demonstrate that the Center for Strategic Materials Research and Policy Study would be established.

At least 78 percent of the grant funds was not used as specified in the appropriations act because the Center for Strategic Materials Research and Policy Study had not been established, and no evidence showed a plan for it to be established. Space allocations documents showed that the Generic Center occupied about 22 percent of the floor space in the Mines Building. The other 78 percent of the space was occupied by classrooms, laboratories, and offices not related to the Center for Strategic Materials Research and Policy Study. Based on the space allocations, \$6.8 million of the \$9.4 million charged to grant funds as of September 30, 1991, was not used as specified in the appropriations act that established the grant.

Grant DN-003. Public Law 99-591, which provided funds for grant DN-003, states:

For the year ending September 30, 1987, in addition to the funds previously appropriated for the National Defense Stockpile Transaction Fund, pursuant to 50 U.S.C. 98a and g(a)(2)(c) and 50 U.S.C. 100(a), notwithstanding the provisions of 50 U.S.C. 98h, an additional \$5,000,000 is appropriated, to be available until expended, for a grant for construction of a strategic materials research facility at the University of Nevada at Reno.

The University of Nevada at Reno was using the \$5 million grant appropriated in FY 1987 to make a building, designated as a historical landmark, capable of

¹In July 1988, the University of Nevada at Reno and the Stockpile Center agreed to change the grant to reflect requirements for a Center for Strategic Materials Research and Policy Study rather than requirements for a Policy Center on Strategic Materials.

withstanding earthquakes. At the time of the audit, \$2 million had been expended for the building modifications. The appropriations act that established the \$5 million grant specified that the grant would be used to construct a strategic materials research facility.

Because the grant program narrative did not specifically address the subject of a research facility, we obtained a copy of the Final Environmental Assessment, revised March 1990, on grant DN-003 to ascertain whether other documentation showed plans for a research facility. Environmental assessments must be performed for anticipating the effects of proposed construction or renovation on the surrounding environment as required by the National Environmental Policy Act of 1969, as amended, and Defense Logistics Agency Regulation 1000.22, "Environmental Considerations in Defense Logistics Agency Actions in the United States," June 1, 1981. In the case of a strategic materials research facility, the effects of the use of laboratories and associated materials would have to be addressed by the grant recipient. However, the March 1990 Final Environmental Assessment showed that laboratory facilities and associated materials would be relocated to another building and that the only proposed uses of the Mines Building are for the minerals museum, library, and offices for the Dean.

Accordingly, documents and plans showed that grant DN-003 did not comply with Public Law 99-591, which required construction of a strategic materials research facility.

Charges Under OMB Circular A-110. The University of Nevada at Reno generally complied with Federal guidelines in charging costs to grant funds. However, the University did not remit all interest income earned on advances of funds. OMB Circular A-110 requires grant recipients to place all advances of funds in interest-bearing accounts and remit all interest earned on the advances to the Federal Government. The University withheld 20 percent of all interest earned on advances and endorsements to pay the cost of the office that managed investments. We estimated that the University withheld at least \$25,000 of interest earned on two advances of grant funds.

University of Texas at El Paso. Public Law 100-440, which provided funds for Grant DN-009, states:

For the fiscal year ending September 30, 1989, in addition to the funds previously appropriated to the National Defense Stockpile Transaction Fund, notwithstanding the provisions of 50 U.S.C. 98h, there is hereby appropriated \$30,000,000 to the Fund, to remain available until expended, the amounts to be allocated for the following projects: University of Texas at El Paso pursuant to 50 U.S.C. 98a and g for a grant to study and facilitate the development, transfer, and installation of strategic materials technologies among American industries \$3,000,000; . . .

The \$3 million grant to the University of Texas at El Paso was managed by the Institute for Manufacturing and Materials Management (the Institute), an element of the University. The Institute's mission was to provide a means for the transfer of Government-sponsored manufacturing technology to the industry

Administration of Grant Funds

of El Paso, to expand metals programs so as to reduce dependency on imported strategic materials, and to foster a transition from a service industry to a manufacturing industry in the El Paso area.

The grant recipient listed only 8 of 19 projects in its grant application. However, none of the 8 projects or the additional 11 projects could be correlated to the provisions of the appropriations acts because the grant application and award documents were void of a program narrative that described project(s) objectives, benefits expected, plans of action, key research personnel, or project changes.

We believe that the lack of clear and specific program objectives in the grant application and award makes arriving at a conclusion difficult. For example, in a September 1, 1989, letter to a member of the Senate Committee on Commerce, Science, and Transportation, the grant recipient stated "... the lion's share of this federal appropriation is directed toward applied materials research and technology transfer" The letter listed five projects with general descriptions: thin film technology, Sol-gel technology, DoD Standard 2000 Soldering School, Arc-welding, and Standard 9858A. Two projects would benefit the strategic materials arena, and three projects would benefit research on infrared devices and Government contracts. Based on the grant recipient's letter to the Senate Committee member, we concluded that grant projects could relate to various subject matters to include strategic and critical materials.

However, in a July 10, 1989, letter to a member of the House Committee on Appropriations, the grant recipient had requested funding support for a Strategic Materials Management Program. The letter referenced specific program benefits from composite research in metals, ceramics, and plastics as an alternative means to relieve U.S. reliance on the strategic mineral stockpile. Based on the grant recipient's letter to the House Committee member, we concluded that proposed projects should specifically relate to strategic and critical materials. However, none of the grant recipient's proposed projects specifically related to strategic and critical materials.

The Stockpile Center sought the advice of experts at the U.S. Bureau of Mines in evaluating the projects. The Chief Staff Officer, U.S. Bureau of Mines, Department of the Interior, commented in an April 2, 1993, letter to the Stockpile Center:

While none of the 20² projects refer to a specific named "strategic and critical material," all of them have some direct or indirect relationship to DoD's current responsibilities under Subtitles C and D of Title XLII of the National Defense Authorization Act for Fiscal Year 1993.

Subtitle C is entitled, "Programs for Development, Application, and Support of Dual-Use Technologies," and Subtitle D is entitled, "Defense Manufacturing Technology, Dual-Use Assistance Extension, and Defense Supplier Base Enhancement and Support Programs." Programs described in Subtitles C and D

²At the time of audit, we reviewed 19 projects.

included projects on technologies such as digital communications and processing methods and optical electronics. However, Grant DN-003 was established pursuant to the Act, which specifically addresses strategic and critical materials for stock piling.

We believe that the lack of a complete grant application and specific conditions for a grant award and the conflicting documentation used by the Stockpile Center to justify the grant projects do not allow for a clear determination on compliance with the appropriations act. Accordingly, we could not determine the propriety of expending \$2.6 million, as of September 30, 1991, on 19 grant projects.

Charges Under OMB Circular A-21. Of the \$2.6 million charged to grant funds as of September 30, 1991, \$2.2 million was not spent in accordance with OMB Circular A-21, "Cost Principles for Educational Institutions," February 26, 1979. The University of Texas at El Paso spent \$864,000 for projects that were not within the scope of Grant DN-009. The grant was charged for the costs of developing a socioeconomic data base to support research on industries along the U.S./Mexican border and to purchase research equipment and facilities. Also, the University of Texas at El Paso charged grant funds totaling \$677,000 to purchase equipment to support research projects financed by foreign and domestic businesses and to support other Federal grants. Other charges totaling \$389,000 were for costs, such as student aid and unrelated travel costs, that are normally and should have been charged to University overhead. In addition, the University charged \$300,000 of unincurred, indirect costs to grant funds. Grant funds were then used to advance a grant from another Federal agency. A total of \$2.2 million charged to Grant DN-009 was not allowable according to OMB Circular A-21.

University of Idaho. The University of Idaho had not made any charges to Grant DN-008 as of September 30, 1991. However, from October 1, 1991, to January 10, 1992, the University of Idaho charged \$4,685 against grant funds. Those charges included \$417 for meals, including meals for Center personnel. Federal guidelines do not allow a grant recipient to charge meals to grant funds.

University of Utah. The University of Utah received \$19.9 million over 3 fiscal years (1988, 1989, and 1991) to pay the Federal share of the cost to construct and equip a Center for Biomedical Polymers (Polymers Center).

Grant DN-007. Public Law 100-202 (FY 1988) states:

For the fiscal year ending September 30, 1988, in addition to the funds previously appropriated for the National Defense Stockpile Transaction Fund, notwithstanding the provisions of 50 U.S.C. 98h, there are hereby appropriated \$10,000,000 under this heading and \$9,000,000 in Section 101(b) of this joint resolution, to remain available until expended, the amounts to be allocated for the following projects: . . . University of Utah pursuant to 50 U.S.C. 98a and 98g(a)(2)(c) for a grant to pay the Federal share of the cost of construction and equipment for a Center for Biomedical Polymers, \$4,000,000

Administration of Grant Funds

Public Law 100-440 (FY 1989) states:

For the fiscal year ending September 30, 1989, in addition to the funds previously appropriated to the National Defense Stockpile Transaction Fund, notwithstanding the provisions of 50 U.S.C. 98h, there is hereby appropriated \$30,000,000 to the Fund, to remain available until expended the amounts to be allocated for the following projects: . . . University of Utah pursuant to 50 U.S.C. 98(a) and 98(g)(a)(2)(c) for a grant to pay the Federal share of the cost of construction and equipment for a Center for Biomedical Polymers, \$7,000,000

Public Law 101-511 (FY 1991) provided \$8.9 million to the University of Utah as part of the Navy Defense Research Sciences and Industrial Preparedness Program. The grant funds were subsequently transferred to the National Defense Stockpile Transaction Fund. A total of \$19.9 million, provided by the three appropriations acts, was administered as a single grant, DN-007.

Purchase of the Supercomputer. On February 21, 1989, the University of Utah had requested and the Stockpile Center had approved the use of \$5 million of the appropriated amount to acquire computer equipment that would support the biomedical polymers research efforts. Subsequently, the University attempted to sell computer time to local businesses to recoup a portion of the purchase costs of the computer and planned to apply the earned income to the total cost to construct the Polymers Center. However, the attempt was not successful. Equipment could be purchased before completion of the Polymers Center. However, the supercomputer was not being used for biomedical polymers research efforts, and the University of Utah used biomedical polymers research as its justification for an advance of \$5 million. Grant documents showed that various research areas comprise the Polymers Center, but no evidence showed that the supercomputer was being used for any of those areas or was planned for use in those areas after completion of the Polymers Center. Therefore, since grant funds were used to purchase a supercomputer, Grant DN-007 was not used as specified in Public Law 100-440.

Charges Under Stockpile Center Procedures. The \$5 million was provided as a cash advance to the University of Utah; therefore, the use of that advance should have directly related to the Polymers Center. As specified in part 205.4, chapter 2, title 31 of the Code of Federal Regulations, ". . . the timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of allocable indirect costs." Part 205.4, chapter 2, title 31 of the Code of Federal Regulations is referenced in the Stockpile Center's standard operating procedures. Further, the Stockpile Center's advance of \$5 million to the University of Utah to purchase the supercomputer conflicted with the Stockpile Center's standard operating procedures for advancing funds. The standard operating procedures state that an interim advance of funds might be provided to defray costs associated with planning, developing, and preparing the required grant application.

The University of Utah did not use the supercomputer for direct program costs and did not use the funds to defray costs associated with the grant application.

In addition, the University of Utah had not remitted to the Stockpile Center Administrator \$3,442 of interest earned on the advanced funds.

South Carolina Research Authority. The South Carolina Research Authority (Research Authority) was using Grant DN-011 in accordance with the appropriations acts that established the grant. However, some Research Authority charges to grant funds were not in accordance with Federal guidelines. A total of \$154,420 was charged to grant funds as facilities cost of money, even though OMB Circular A-122 does not allow for grant funds to be charged for that purpose. Also, \$2,472 was charged to grant funds for meals, penalties, contributions, and unrelated travel costs. The Research Authority made a profit of at least \$16,000 from leasing a test furnace, built with grant funds, to a commercial firm. The \$16,000 is considered grant program income according to OMB Circular A-110 and should have been used to defray grant costs as required by the Circular.

Grant Recipient Accounting Records

The accounting records at the University of Nevada at Reno and the University of Utah were inaccurate. Costs that should have been charged to the grants were not posted to grant recipients' accounting records. The errors in the accounting records resulted in the University of Utah understating actual grant costs by about \$18,000 and in the University of Nevada at Reno understating costs by about \$78,000. Because of the understatements, the Stockpile Center and the grant recipients did not have an accurate account of the amount of funds available to complete grant programs.

Grant Administration Procedures

Processing a Grant Application for Award. OMB Circular A-110 prescribes procedures for processing grant applications. Also, the Stockpile Center's standard operating procedures require that a grant recipient complete the requirements in the grant application before an award is made. Those requirements are:

- o a breakdown (Federal, state, local, and private) of the total anticipated funding for the project;
- o a proposed overall budget applicable to the entire project;

Administration of Grant Funds

- o a narrative (program narrative) of the proposed undertaking that includes a tentative work schedule;
- o an environment assessment report addressing all associated environmental ramifications and historical preservation issues; and
- o certification from the grant recipient that it will comply with all applicable Federal regulations, policies, guidelines, and requirements.

In the case of congressionally directed grants, as provided for in the Stockpile Center's standard operating procedures, the grant recipient must describe in the program narrative how the grant funds will be used in accordance with the applicable appropriations act. OMB Circular A-110 requires that the program narrative include a description of project objectives, benefits expected, plan of action, key personnel for research, current accomplishments, and significant expected changes to project objectives, scope, place of performance, or approach. Also, the program narrative, as part of the grant award would be used by Stockpile Center personnel in monitoring compliance with the appropriations acts.

Quarterly Status Reports by the Grant Recipients. OMB Circular A-110 requires grant recipients to submit to the Stockpile Center quarterly financial status reports on each grant. The Stockpile Center required grant recipients to provide supporting documentation for grant expenditures reported on the quarterly financial status reports. Also, Stockpile Center personnel visited the grant recipients to review progress in completing the grants. However, standard operating procedures established by the Stockpile Center did not provide guidance on verifying that financial status reports and supporting documentation validated grant expenditures or on verifying the grant recipients' financial records during Stockpile Center visits.

We believe the conditions discussed in this report occurred because the Stockpile Center awarded grants that did not specifically reflect the requirements of applicable appropriations acts. Further, standard operating procedures did not include procedures for verifying that grant recipients charged grant funds for allowed expenses or that research was coordinated with the Department of the Interior. Implementing an internal control program, as specified in Defense Logistics Agency Regulation 5010.4, for administering grants could have disclosed the need to prepare and use more detailed standard operating procedures.

Coordination of Research Conducted with Grants

Under Executive Order 12626, the Secretary of the Interior is responsible to do minerals research required by the Strategic and Critical Materials Stock Piling Act. The Bureau of Mines (the Bureau), Department of the Interior, is the primary Federal agency responsible for conducting minerals research and for developing technology for the minerals industry. The Bureau does minerals

research at 6 Generic Research Centers and 30 Mineral Institutes at universities and colleges. The Generic Research Centers do research in areas, such as mine system design and ground control, productivity improvements, minerals industry waste treatment and recovery, and marine minerals technology. Two universities (Nevada at Reno and Utah) that received grants through the Transaction Fund are lead institutions for two of the Generic Research Centers. Also, the Universities of Arizona, Idaho, and Nevada at Reno have been designated Mineral Institutes.

None of the research funded by the 11 grants was coordinated with the Bureau, because the Stockpile Center had not established procedures for coordinating research. Five of the eleven grants were established before Executive Order 12626 was issued. As the administrator of the Fund, the Stockpile Center should have coordinated with the Bureau to determine whether the research was needed and whether ongoing and planned research by the Bureau's Generic Research Centers and Mineral Institutes could satisfy Stockpile requirements.

The Interagency Advisory Committee (the Committee), composed of representatives from the Departments of Commerce, Defense, the Interior, and State, assists in managing the Stockpile and in determining Stockpile requirements. The Committee was established in response to Office of the Inspector General, DoD, Audit Report No. 91-112, "Requirements for the National Defense Stockpile," July 19, 1991. The Committee was not institutionalized until April 1992, which was after the September 30, 1991, cutoff date for our audit of the grants. The members of the Committee have expertise in mobilization planning, critical and strategic minerals, and advanced technology materials. The Committee should be offered the opportunity to determine whether the proposed research is required, does not duplicate other research projects, and will support Stockpile requirements.

Internal Management Control Program

The Stockpile Center had not established an internal management control program for the administration of grant funds. Stockpile Center personnel excluded the grant program from their internal management control review done in September 1991. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires managers in the Federal Government to implement an internal control program and to review programs periodically to determine whether controls are working to prevent fraud, waste, and abuse. Procedures for implementing an internal control program are in Defense Logistics Agency Regulation 5010.4, "Internal Management Control Program," October 12, 1990. If the Stockpile Center had implemented an internal control program for grant administration, the conditions discussed in this report could have been detected by Stockpile Center personnel during internal management control program evaluations.

Costs of Administering Grants

Congress did not specifically appropriate funds to pay the Stockpile Center's costs of administering the grants appropriated through the Transaction Fund. In order to pay those costs, officials at the Stockpile Center withheld 1.1 percent of each grant. The grant recipients were aware that the 1.1 percent was set aside. As of August 30, 1991, about \$1.3 million had been set aside for the Stockpile Center's administrative costs. The Stockpile Center had charged \$327,271 to the set-aside funds; however, of that amount, only \$89,377 was used to offset incurred administrative costs. The remaining \$237,894 charged to the set-aside funds consisted of redistributions to grant recipients to do work on the grants.

The Stockpile Center used \$89,377 in set-aside funds to pay for visits to grant recipients, to publish the results of the environmental effects studies in local newspapers, and to study the effect of planned construction on historical landmarks. The audit could not determine whether all the costs of visits to grant recipients were charged to the set-aside funds, because Stockpile Center personnel could not provide all the travel vouchers and had not completed all trip reports. Records did show that Stockpile Center personnel made trips to present the first check to the grant recipients and to help prepare applications for Federal assistance. The Stockpile Center did not charge payroll costs to the set-aside funds for employees responsible for administering the grants.

Stockpile Center personnel stated that money remaining in the set-aside funds would be sent to the grant recipients when the work on grant projects was completed. We believe the Stockpile Center has no need to withhold funds. We contacted grant administrators in three Federal agencies to determine whether grant funds were used to defray the costs of administering grants. All three grant administrators responded that they did not set grant funds aside for administrative expenses. Since FY 1986, the Stockpile Center has administered grants as part of its day-to-day operations. Therefore, expenses for visits to grant recipients and for personnel to administer grants should be paid from the Stockpile Center's Operation and Maintenance funds. Set-aside funds should be either made available immediately for use by the grant recipients or returned to the Department of Treasury if the grant is completed.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Administrator of the Defense National Stockpile Center:

a. Require that the University of Nevada at Reno develop and provide specific plans to form and staff the Center for Strategic Materials

Research and Policy to accelerate research in the area of critical and strategic materials in compliance with amendment 2 to Grant DN-001.

b. Amend the grant agreement for Grant DN-003 to require the University of Nevada at Reno to develop and provide specific plans to construct a research facility in accordance with Public Law 99-591.

c. Amend the grant agreement for Grant DN-007 to require the University of Utah to develop and provide specific plans to use the supercomputer the University purchased, in part, with grant funds to support biomedical polymer research in accordance with Public Law 100-440.

d. Amend the grant agreement for Grant DN-009 to require the University of Texas at El Paso to provide a program narrative that includes research project objectives, benefits expected, and plans of action for additional, proposed research projects and correlate those projects to the provisions of Public Law 100-440.

Management Comments. The Defense Logistics Agency stated that the requirements of the appropriations acts had been met. The Defense Logistics Agency agreed with Recommendation 1.a. and stated the Stockpile Center will request a charter for the Center for Strategic Materials Research and Policy to accelerate research in critical and strategic materials in accordance with amendment 2 to Grant DN-001. The Defense Logistics Agency nonconcurred with Recommendation 1.b. and stated that Grant DN-003 met the requirements of Public Law 99-591 through the renovation of the Mackay School of Mines and the establishment of its museum and library as a research facility on mining, earth science and strategic mineral policy. The Defense Logistics Agency concurred with Recommendation 1.c. and stated the university has provided specific plans on grant research activities by use of the supercomputer. For Recommendation 1.d., the Defense Logistics Agency agreed to have the university develop a program narrative for specific research projects that correlate with the provisions of the public law.

Audit Response. Management comments reaffirm our conclusions that the Stockpile Center did not award grants that specifically reflected the requirements of the applicable appropriations act. Management comments were not fully responsive to Recommendation 1.a. because the comments did not discuss staffing the Center for Strategic Materials Research and Policy in accordance with amendment 2 to Grant DN-001. For Recommendation 1.b., Grant DN-003 did not provide specific plans to construct a strategic materials research facility. Grant DN-003 did not establish the Mackay School of Mines museum and library, two facilities that already existed as described in a September 1985 grant document prepared by the University of Nevada at Reno. Additional comments were needed for Recommendation 1.d., concerning specific plans for the additional research projects proposed for Grant DN-009.

2. Collect the \$2,433,607 in grant funds (Appendix B) that was not used in accordance with Office of Management and Budget guidance or Defense

Administration of Grant Funds

National Stockpile Center procedures, return the funds to the Defense National Stockpile Transaction Fund, and do not expend those funds until Recommendations 1.a., 1.b., 1.c., and 1.d. are implemented.

Management Comments. The Defense Logistics Agency partially concurred with recovering funds. The Defense Logistics Agency commented that the University of Utah had recently provided documentation to the Stockpile Center showing that the supercomputer was used for biomedical research and that the procedures used by the Stockpile Center in advancing \$5 million to purchase the supercomputer was appropriate. For Grant DN-009, the Stockpile Center will advise the grant recipient to develop a program narrative to support the \$2,230,000 in research projects completed under Grant DN-009 that will meet the guidelines of OMB Circular A-110. Of the remaining \$203,607, the Defense Logistics Agency agreed to recover \$46,891 and concluded that charges of \$156,716 were proper. The Defense Logistics Agency stated that \$154,420 for facilities capital cost of money are not interest and are allowable; \$2,126 of travel costs were valid preaward expenses; and \$170 of meal costs were for business lunches related to plasma research.

Audit Response. Management comments on the use of the supercomputer for biomedical research are considered responsive. Accordingly, we no longer recommend recovery of the \$5 million used to purchase the supercomputer. Planned management actions pertaining to the research projects funded under Grant DN-009 are not fully responsive. If the program narrative that is under preparation does not support the expenses incurred, then recovery should be made of \$2,230,000, charged under Grant DN-009, that was not allowable according to OMB Circular A-21. OMB Circular A-21 discusses costs applicable to Federal grants, whereas OMB Circular A-110 contains procedures for applying for Federal grants. We request the Defense Logistics Agency provide additional comments on how it will proceed after the program narrative is received.

We do not agree with the determination that \$156,716 was properly spent on facilities capital cost of money, travel, and entertainment. Our reasons are discussed below.

The Stockpile Center improperly allowed \$154,420 in costs for facilities capital cost of money based on criteria that do not apply to the South Carolina Research Authority grant. Federal Acquisition Regulation subpart 31.703, "Contracts with Nonprofit Organizations," requires that contracting officers use OMB Circular A-122 and not the Federal Acquisition Regulation in determining cost allowability on grants. Cost Accounting Standard 414 identifies facilities capital cost of money as a contract cost. Attachment C to OMB Circular A-122 lists nonprofit organizations that are exempt from the requirements of the Circular, but the South Carolina Research Authority is not identified in the original attachment or any subsequent revisions. Therefore, the grant for the South Carolina Research Authority should be administered under provisions of OMB Circular A-122. OMB Circular A-122 defines the total cost of an award as the sum of the allowable direct charges and allocable indirect costs. Facilities capital cost of money is neither an allowable direct charge nor an allocable indirect cost.

The Defense Logistics Agency misinterpreted our reasons for questioning the \$2,126 in travel costs for the South Carolina Research Authority. We determined that the travel costs were unrelated to the scope of the grant and were not preaward costs. Costs unrelated to the scope of the grant are not allowable as prescribed by OMB Circular A-122.

Three meals totaling \$170 involved the subcontractor and associates from the South Carolina Research Authority and were reported as lunches. OMB Circular A-122, attachment B, section 24 allows costs associated with the conduct of meetings and conferences, including the cost of meals, provided the costs meet the general tests of allowability in attachment A of the Circular. OMB Circular A-122, attachment A, section 2 disallows charges that are not adequately documented. No documents showed that those meals were associated with meetings or conferences.

3. Establish procedures to verify that grant funds are used for purposes specified in applicable appropriations acts and in accordance with Office of Management and Budget Circulars A-21, "Cost Principles for Educational Institutions"; A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations"; A-122, "Cost Principles for Non-Profit Organizations"; and Defense National Stockpile Center standard operating procedures.

Management Comments. The Defense Logistics Agency concurred and stated that the Stockpile Center plans to revise the current standard operating procedures by December 31, 1994.

4. Establish procedures to coordinate with the Department of the Interior and Interagency Advisory Committee in determining the need for and propriety of research grants proposed in support of the National Defense Stockpile.

Management Comments. The Defense Logistics Agency partially concurred with the recommendation and emphasized that no statutory or regulatory requirement exists to coordinate a project with the Department of the Interior or the Interagency Advisory Committee. The Defense Logistics Agency further stated that the grants did not support or respond to any identified Stockpile requirement.

Audit Response. We recognize the difficulty in relating the grants to specific National Defense Stockpile requirements as discussed in Other Matter of Interest in this report. Nevertheless, we do not agree that the Stockpile Center does not have cognizance over grants established pursuant to section 8 of the Strategic and Critical Materials Stock Piling Act (the Act). As the Administrator of the National Defense Stockpile, the Stockpile Center should coordinate with the Department of the Interior and the Interagency Advisory Committee to determine the need for and propriety of those grants that are proposed in support of the National Defense Stockpile. The Department of the Interior is responsible, by Executive Order 12626, for minerals development and research in support of the Stockpile. Also, we believe that the Interagency Advisory Committee can provide knowledgeable advice on grants established

Administration of Grant Funds

pursuant to section 8 of the Act. Further, as stated in the November 9, 1989, Assistant Secretary of Defense (Production and Logistics) (now the Assistant Secretary of Defense [Economic Security]) Memorandum on Management of the National Defense Stockpile, the Defense Logistics Agency (and thereby the Stockpile Center) has several responsibilities that relate to section 8 of the Act, such as determining what materials development and research shall be done to cover the development, mining, preparation, treatment, and utilization of ores and minerals. We request that management provide additional comments in response to the final report.

5. Establish an Internal Management Control Program in accordance with DoD Directive 5010.38, "Internal Management Control Program," and Defense Logistics Agency Regulation 5010.4, "Internal Management Control Program," for the administration of grants appropriated through the National Defense Stockpile Transaction Fund.

Management Comments. The Defense Logistics Agency concurred and stated that the Stockpile Center has established a 5-year plan for FYs 1993 through 1997 that includes a review of the grant program.

6. Eliminate the practice of setting aside grant funds to defray costs of administering grants and return the balance of set-aside funds to the grant recipients.

Management Comments. The Defense Logistics Agency concurred and stated that the Stockpile Center has recredited the remaining set-aside funds to the appropriate accounts as of March 30, 1993, and will also recredit previously expended funds.

Response Requirements for Each Recommendation

Responses to the final report are required from the addressee for the items indicated with an "X" in the chart below.

Number	Addressee	Response Should Cover			
		Reconsider Position	Proposed Action	Completion Date	Related Issues
1.a.	DLA ¹		X	X	
1.b.	DLA	X	X	X	
1.d.	DLA		X	X	
2.	DLA	X	X	X	M ²
4.	DLA	X	X	X	

¹Defense Logistics Agency

²M = Monetary Benefits

Part III - Additional Information

Appendix A. Summary of Status of Grants

(Millions)

Grant Grant Recipient	Amount	Expended Through September 30, 1991			Undeterminable
		Total Expended	In Compliance ¹	Not in Compliance ¹	
Loyola College in Maryland	\$ 6.5	\$ 3.6	\$ 3.6	\$ 0.0	\$0.0
University of Nevada at Reno	10.0 5.0	9.4 2.0	2.6 0.0	6.8 2.0	0.0
University of Texas at El Paso	3.0	2.6	--	--	2.6 ²
University of Idaho	8.8	0.0	0.0	0.0	0.0
University of Utah	19.9	5.4	0.4	5.0	0.0
South Carolina Research Authority	13.5	3.7	3.7	0.0	0.0
University of Arizona	4.0	2.6	2.6	0.0	0.0
University of New Mexico	1.0	0.9	0.9	0.0	0.0
University of Massachusetts	20.0 ³	4.5	0.0	0.0	4.5
University of Hawaii	<u>26.0³</u>	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.3</u>
Total	<u>\$117.7</u>	<u>\$35.0</u>	<u>\$13.8</u>	<u>\$13.8</u>	<u>\$7.4</u>

¹In compliance or noncompliance with applicable appropriations acts.

²Management comments provided conflicting information, which did not enable us to determine compliance or noncompliance with the appropriations act establishing the grant.

³Sufficient work had not been done on these grants at the time of the audit to enable us to determine whether the work was in compliance with the appropriations acts.

Appendix B. Summary of Unallowable Charges

<u>Grant Recipient and Description of Charge</u>	<u>Amount Expended</u>
<u>University of Nevada at Reno, Grant DN-003</u>	
Interest on advances of Funds ¹	\$ 25,174
<u>University of Texas at El Paso, Grant DN-009</u>	
Outside scope of grant objectives ²	\$ 864,000
Equipment in support of projects financed by foreign or domestic businesses and other Government agencies ²	677,000
Incorrect direct charges ²	389,000
Unearned indirect cost reimbursement ²	300,000
Subtotal	<u>\$2,230,000</u>
<u>University of Idaho, Grant DN-008</u>	
Meal costs ²	\$ 417
Interest on advances for funds ¹	<u>1,464</u>
Subtotal	<u>\$ 1,881</u>
<u>University of Utah, Grant DN-007</u>	
Interest on advances of funds ¹	<u>\$ 3,442</u>

See footnotes on next page.

Appendix B. Summary of Unallowable charges

<u>Grant Recipient and Description of Charge</u>	<u>Amount Expended</u>
<u>South Carolina Research Authority, Grant DN-011</u>	
Meal costs ³	\$ 170
Income earned from grant funds ¹	16,218
Penalties, contributions, and unrelated travel ³	2,302
Facilities capital cost of money ^{3,4}	<u>154,420</u>
Subtotal	<u>\$ 173,110</u>
Total	<u>\$2,433,607</u>

Grant Recipient Charges in Noncompliance with the Following Governing Criteria

¹OMB Circular A-110

²OMB Circular A-21

³OMB Circular A-122

⁴Federal Acquisition Regulation subpart 31.703

Appendix C. Summary of Potential Benefits Resulting from the Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a through 1.d.	Compliance with Appropriations Acts and Internal Control. Establish controls that will result in compliance with appropriations acts.	Nonmonetary.
2.	Program Results. Collects grant funds not used in accordance with Office of Management and Budget guidelines and Stockpile Center standard operating procedures.	\$2,433,607 (of questioned costs). Funds collected will be returned to the National Defense Stockpile Transaction Fund (97X4555.5145). Details are in Appendix B.
3.	Internal Control. Establishes procedures for determining that grant funds are used as specified in appropriations acts and in accordance with Federal guidelines.	Nonmonetary.
4.	Internal Control. Establishes and implements procedures to coordinate research efforts, funded by grants, with the Department of the Interior and the Interagency Advisory Committee in determining whether the research is needed to support the Stockpile.	Nonmonetary.

Appendix C. Summary of Potential Benefits Resulting from the Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
5.	Internal Control. Establishes procedures to determine that grant recipients use funds in accordance with OMB guidance.	Nonmonetary.
6.	Economy and Efficiency. Eliminates funds set aside to pay the Stockpile Center's administrative costs.	Nonmonetary.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Economic Security), Washington, DC
(formerly, Office of the Assistant Secretary of Defense [Production and Logistics])

Defense Agency

Defense Logistics Agency
Defense National Stockpile Center, Arlington, VA

Other Federal Organizations

Office of the Inspector General, Department of Health and Human Services,
Washington, DC
Bureau of Mines, Department of the Interior, Washington, DC

Non-Federal Organizations

Loyola College in Maryland, Baltimore, MD
South Carolina Research Authority, Charleston, SC
University of Arizona, Tucson, AZ
University of Idaho, Moscow, ID
University of New Mexico, Albuquerque, NM
University of Nevada at Reno, Reno, NV
University of Texas at El Paso, El Paso, TX
University of Utah, Salt Lake City, UT

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Assistant Secretary of Defense (Economic Security)
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Naval Audit Service

Department of the Air Force

Auditor General, Air Force Audit Agency

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-DoD Organizations

Office of Management and Budget
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, Department of the Interior
Inspector General, Department of State
Inspector General, General Services Administration
Director, Bureau of Mines, Department of the Interior

Non-DoD Organizations (cont'd)

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and Ranking Minority Member of each of the Following Congressional
Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Military Readiness and Defense Infrastructure, Committee on
Armed Services
Senate Subcommittee on Defense Technology, Acquisition, and Industrial Base,
Committee on Armed Services
Senate Committee on Budget
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space, Committee on Commerce,
Science, and Transportation
Senate Committee on Energy and Natural Resources
Senate Subcommittee on Mineral Resources Development and Production, Committee
on Energy and Natural Resources
Senate Committee on Environment and Public Works
Senate Committee on Governmental Affairs
Senate Subcommittee on Oversight of Government Management, Committee on
Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Subcommittee on Interior, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Research and Technology, Committee on Armed Services
House Subcommittee on Readiness, Committee on Armed Services
House Committee on Budget
House Committee on Energy and Commerce
House Subcommittee on Health and the Environment, Committee on Energy and
Commerce
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations
House Committee on Natural Resources
House Subcommittee on Energy and Mineral Resources, Committee on Natural
Resources
House Subcommittee on Oversight and Investigations, Committee on Natural Resources
House Committee on Science, Space, and Technology
House Subcommittee on Technology, Environment, and Aviation, Committee on
Science, Space, and Technology
House Subcommittee on Investigations and Oversight, Committee on Science, Space,
and Technology

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Part IV - Management Comments

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



124 JUN 1994

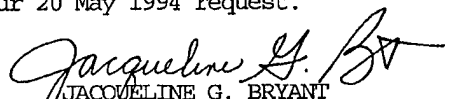
IN REPLY DDAI
REFER TO

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE (Ms. Mary Lu Ugone)

SUBJECT: Revised Draft Audit Report on the Administration
of Grants by the Defense National Stockpile Center
(Project No. 1RE-0068)

This is in response to your 20 May 1994 request.

9 Encl w/
attachments


JACQUELINE G. BRYANT
Chief, Internal Review Office

CC:
MM
DNSC

Defense Logistics Agency Comments

Final Report
Reference

FORMAT 1 of 10

DATE OF POSITION: 24 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

FINDING: ADMINISTRATION OF GRANT FUNDS. For three of 11 grants reviewed, grant agreements did not implement the provisions of the appropriations acts establishing the grants; agreements for five grants implemented the provisions of the applicable appropriations acts; and compliance with the applicable appropriations acts for the remaining three grants was undeterminable. Five of 10 grant recipients (one recipient had two grants) did not comply with Office of Management and Budget directives when charging expenditures to grant funds. Also, ongoing and planned research efforts funded by the grants were not coordinated with the Department of the Interior, the Federal agency responsible for minerals research in support of the Stockpile. These conditions occurred because the Stockpile Center had neither awarded grants that specifically reflected the requirements of the applicable appropriations acts nor established procedures to review the grant recipients' expenditures or to verify that planned research was coordinated with the Department of the Interior. As a result about \$13.8 million in grant funds expended through September 30, 1991, was not used as directed by Congress, and about \$7.4 million in grant funds expended through September 30, 1991, was not used in accordance with Federal guidelines. Further, funds could be expended for research that may have been previously accomplished or that may not be beneficial to the maintenance and operation of a viable Stockpile.

DLA COMMENTS: Partially Concur. DNSC staff reviewed the grants in question. The requirements of the Appropriations Acts were met. Wherever it was determined that the expenditure of funds was not allowable in accordance with OMB Circulars or Center procedures steps were taken to collect those funds. The grants reviewed were congressionally directed grants and, therefore, no coordination with the Department of the Interior was required. Only one of the grants reviewed was a research grant. The other grants were for construction and equipment. Detailed results of our analysis are provided in Attachment A.

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

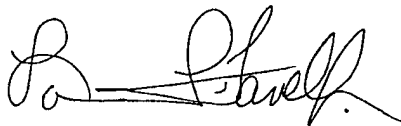
Page 8

Defense Logistics Agency Comments

ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176
REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director,
Supply Management, MMSD, 20 Jun 94
COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94
L. Rains for J. Bryant, 22 Jun 94

DLA APPROVAL:

24 JUN 1994



LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

Defense Logistics Agency Comments

Final Report
Reference

FORMAT 2 of 10

DATE OF POSITION: 24 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 1.a.: We recommend that the Administrator of the Defense National Stockpile Center require that the University of Nevada at Reno develop and provide specific plans to form and staff the Center for Strategic Materials Research and Policy to accelerate research in the area of critical and strategic materials in compliance with amendment 2 to Grant DN-001.

DLA COMMENTS: Concur. DNSC will request that the University of Nevada-Reno provide a charter for the Center for Strategic Materials Research and Policy to accelerate research in the area of Critical and Strategic Materials.

DISPOSITION:

- (x) Action is ongoing. Estimated Completion Date: 30 Oct 94
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

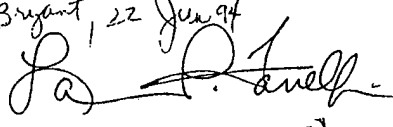
ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 21 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

DLA APPROVAL:

24 JUN 1994


LAWRENCE P. FARRELL, JR.
Major General, USAF
Per: 3rd Deputy Director

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Defense Logistics Agency Comments

Final Report
Reference

Page 19

FORMAT 3 of 10

DATE OF POSITION:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 1.b.: We recommend that the Administrator of the Defense National Stockpile Center amend the grant agreement for Grant DN-003 to require the University of Nevada at Reno to develop and provide specific plans to construct a research facility in accordance with Public Law 99-591.

DLA COMMENTS: Nonconcur. The University of Nevada-Reno met the requirements of the appropriations act through the renovation (construction) of the Mackay School of Mines and the establishment of the School of Mines Museum and Library as a research facility on mining, earth sciences and strategic material policies. The School of Mines Museum and Library, like the Smithsonian Institute and Library of Congress, is a research facility providing the user access to information through publications, static displays, and information networks.

DISPOSITION:

- ☐ Action is ongoing. Estimated Completion Date:
- ☒ Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- ☒ Nonconcur
- ☐ Concur; however, weakness is not considered material.
- ☐ Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

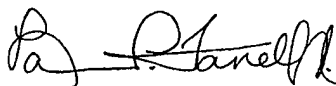
ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

DLA APPROVAL:

27 JUN 1994



LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director,

Defense Logistics Agency Comments

Final Report
Reference

FORMAT 4 of 10

DATE OF POSITION: 124 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 1.c.: We recommend that the Administrator of the Defense National Stockpile Center amend the grant agreement for Grant DN-007 to require the University of Utah to develop and provide specific plans to use the supercomputer the University purchased, in part, with grant funds to support biomedical polymer research in accordance with Public Law 100-440.

DLA COMMENTS: Concur. The University of Utah revised the program narrative identifying the need for a supercomputer in support of biomedical research, and its plans to use this asset in support of 11 biomedical research activities. Additionally, the university provided a summary of its use of the supercomputer for FY 1990 and 1991, identifying the cumulative CPU hours used by the four colleges conducting biomedical research.

DISPOSITION:

- ☐ Action is ongoing. Estimate Completion Date:
- ☒ Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- ☐ Nonconcur
- ☒ Concur; however, weakness is not considered material.
- ☐ Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

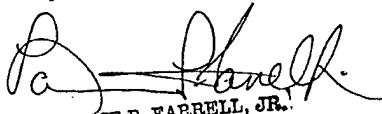
ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

DLA APPROVAL:

124 JUN 1994


LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

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Reference

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FORMAT 5 of 10

DATE OF POSITION: 12 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 1.d.: We recommend that the Administrator of the Defense National Stockpile Center amend the grant agreement for Grant DN-009 to require the University of Texas at El Paso to provide a program narrative that includes research project objectives, benefits expected, and plans of action for additional, proposed research projects and correlate those projects to the provisions of Public Law 100-440.

DLA COMMENTS: Concur. DNSC will require the University of Texas at El Paso to develop a Program Narrative that includes project objective, benefits expected, and plans of action for research projects and correlates projects with the provisions of the Public Law.

DISPOSITION:

- (x) Action is ongoing. Estimate Completion Date: 30 Oct 94
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176


REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

S. Raine for J. Bryant, 22 Jun 94

DLA APPROVAL:

24 JUN 1994


LAWRENCE P. FARRELL, JR.
Major General USAF
Principal Deputy Director

Defense Logistics Agency Comments

Final Report
Reference

FORMAT 6 of 10

DATE OF POSITION: 24 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 2: Collect the \$7,433,607 in grant funds (Appendix B) that was not used in accordance with Office of Management and Budget guidance or Defense National Stockpile Center procedures, return the funds to the Defense National Stockpile Transaction Fund, and do not expend those funds until Recommendations 1.a., 1.b., 1.c., and 1.d. are implemented.

DLA COMMENTS: Partially Concur. After a review of the revised Program Narrative, DNSC will conduct a thorough analysis of the expenditures incurred against grant DN-009. DNSC will ensure that all charges against grant DN-009 are allowable and in accordance with the OMB Circulars A-110 and A-122. Charges not in accordance with established OMB guidelines will be collected from the grantee. Also, milestones will be established to ensure immediate resolution to the recommendation provided by the DoD IG. See Attachment B.

DISPOSITION:

- (x) Action is ongoing. Estimate Completion Date: 30 Mar 95
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94
J. Rains for J. Bryant, 22 June 94

DLA APPROVAL:

24 JUN 1994



LAWRENCE P. FARRELL, JR.¹
Major General, USAF
Principal Deputy Director

Defense Logistics Agency Comments

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DATE OF POSITION: 24 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 3: Establish procedures to verify that grant funds are used for purposes specified in applicable appropriations acts and in accordance with Office of Management and Budget Circulars A-21, "Cost Principles for Educational Institutions"; A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations"; A-122, "Cost Principles for Non-Profit Organizations"; and Defense National Stockpile Center standard operating procedures.

DLA COMMENTS: Concur. DNSC plans to revise the current SOP by formulating and developing more comprehensive grant procedures to address the responsibilities and functions of administering federal directed grants.

DISPOSITION:

- (x) Action is ongoing. Estimate Completion Date: 31 Dec 94
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

DLA APPROVAL: *Lance Kualii*, 22 Jun 94

24 JUN 1994



LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

Defense Logistics Agency Comments

Final Report
Reference

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DATE OF POSITION: 124 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 4: Establish procedures to coordinate with the Department of the Interior and Interagency Advisory Committee in determining the need for and propriety of research grants proposed in support of the National Defense Stockpile.

DLA COMMENTS: Partially Concur. The grant recipient, the nature of the project, and the dollar value of the grants were specifically identified by Congress in the various appropriations acts. The grant did not support or respond to any identified Stockpile requirement. There was no statutory or regulatory requirement to coordinate any project with the Department of Interior or the Interagency Advisory Committee.

For the one questioned grant that is primarily research, DNSC has established a peer review group comprised of internal technical specialists and a representative from the Department of Interior Bureau of Mines. That group will evaluate the technical concepts and premises of proposed research projects to ensure that the research meets the intent of the appropriations act. The Interagency Advisory Committee was established to provide advice on Stockpile requirements, mobilization needs, and availability of domestic resources. This Committee is comprised of economists that do not necessarily have the technical expertise to provide advice on propriety of research projects.

In the event that money is appropriated to establish grants pursuant to Section 8 of the Strategic and Critical Materials Stock Piling Act, these grants would be awarded on a competitive basis by the agency having cognizance over the section 8 function addressed. DLA has no cognizance over any function contained in that section. These functions were either retained by the Assistant Secretary of Defense (P&L) or delegated by Executive Order to the Department of Interior or Department of Agriculture.

DISPOSITION:

- ☐ Action is ongoing. Estimate Completion Date:
- ☒ Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:

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Defense Logistics Agency Comments

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director,
Supply Management, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

L. Rames for J. Bryant Jun 94

DLA APPROVAL:

24 JUN 1994



LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director /

Defense Logistics Agency Comments

Final Report
Reference

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DATE OF POSITION: 124 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 5: Establish an Internal Management Control Program in accordance with DoD Directive 5010.38, Internal Management Control Program, and Defense Logistics Agency Regulation 5010.4, "Internal Management Control Program," for the administration of grants appropriated through the National Defense Stockpile Transaction Fund.

DLA COMMENTS: Concur. DNSC has established the 5-year plan for Fiscal Years 1993-1997. The contracting area was identified as high risk and scheduled for review during FY 1994. The Grant Program will be reviewed as part of the contracting Internal Management Control Review.

DNSC delegated the responsibility for administration of 7 of the grants to the Office of Naval Research. DNSC is also reviewing its Internal Control System as it pertains to grants to ensure that adequate checks exist with respect to any administrative functions which DNSC may be required to retain.

DISPOSITION:

- (x) Action is ongoing. Estimate Completion Date: 31 Dec 94
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

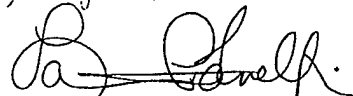
ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAL, x49607, 21 Jun 94

DLA APPROVAL:

24 JUN 1994



LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

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DATE OF POSITION: 124 JUN 1994

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Revised Draft Audit Report on Administration of Grants by the Defense National Stockpile Center (Project No. 1RE-0068)

RECOMMENDATION 6: Eliminate the practice of setting aside grant funds to defray costs of administering grants and return the balance of set-aside funds to the grant recipients.

DLA COMMENTS: Concur. DNSC has recredited the remaining set-aside funds to the appropriate grant accounts as of 30 March 1993. The remaining balance of funds previously expended by DNSC for administrative costs will be recredited.

DISPOSITION:

- (x) Action is ongoing. Estimate Completion Date: 31 Dec 94
- () Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur
- (x) Concur; however, weakness is not considered material.
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lance Kualii, DNSC-PD, 607-3176

REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, 20 Jun 94

COORDINATION: A. Broadnax, DDAI, x49607, 21 Jun 94

DLA APPROVAL:



DEFENSE NATIONAL STOCKPILE CENTER
ANALYSIS

University of Nevada at Reno (DN-001)

The audit report stated that: (1) The university failed to comply with the intent of Public Law 99-190 since the Center of Strategic Materials Research and Policy Study is not housed in Phase II of the mines building; and (2) 78% of grant funds was not used as specified in the appropriations act because it represents classrooms, laboratories, and offices.

DLA COMMENT: Nonconcur. (1) The intent of the appropriations act was met by the university with the construction of Phase II of the Mines Building, relocation of the Generic Center, and establishment of a Center for Strategic Materials Research and Policy Study. (2) Public Law 99-190 does not specify a requirement for an equitable allocation of space or restrict the use of the building to only the Generic and Policy Centers. This facility is a multi-purpose facility to be shared by the Generic and Policy Centers. Space will be allocated on the need of each center to conduct awarded research projects and may be used for other activities.

University of Nevada Reno (DN-003)

The audit report stated: the university did not comply with Public Law 99-591, which required construction of a strategic materials research facility.

DLA COMMENT: Nonconcur. The intent of the appropriations act was met by the university with the renovation and restoration (construction) of the Mackay School of Mines building, and the establishment of the Schools of Mines Museum and Library. A renovation and restoration project of this magnitude is considered a major construction project. A military facility with an identical scope of work would require specific authorization and funding as a military construction project subject to the terms of Title 10 U.S.C., Chapter 169.

Further, the museum and library are research facilities. Like the Library of Congress and Smithsonian Institute (also designated as research facilities), information can be accessed through information network, publications, static displays and videos. Information pertaining to mining, earth sciences and strategic materials will be available to university researchers as well as to the general public.

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University of Utah

The audit report stated that: (1) the \$5 million advanced to purchase a supercomputer was not in compliance with the appropriation act, supercomputer was not used for biomedical polymers research; (2) advance of \$5 million to purchase the supercomputer conflicted with the Stockpile Center's standard operating procedures for advanced funds.

DLA COMMENTS: Nonconcur.

(1) The University of Utah has provided information to support the use of the supercomputer in biomedical research. Biomedical research carried out by the university is conducted in four colleges: medicine, pharmacy, engineering, and science. These colleges collectively utilized 73.7 percent of the supercomputer time for biomedical research. This figure does not include the operational activities required by a computer system of this size (i.e. systems and operational maintenance, down time, and unused time. On March 11, 1994, the University of Utah provided DNSC \$407,765 in program income generated by the use of the supercomputer.

(2) A management decision was made to grant an exception to DNSC's SOP and approve an advance for equipment purchase. This approval was granted to take advantage of the university's opportunity to acquire a more powerful computer than originally contemplated at no additional cost to the university or the Federal Government. Additionally, an early purchase of this system provided considerable advantage to the program by providing additional data processing assets, early training opportunity for university staff, and technically superior equipment to meet the specific need and goals of the university's research projects.

South Carolina Research Authority

The audit report stated that SCRA failed to comply with Federal guidelines when charging certain costs against grant funds, including Facilities Capital Cost of Money.

DLA COMMENT. Nonconcur.

According to the audit report, costs identified as FCCM are unallowable per OMB Circular A-122, Attachment B, Section 19, Interest, fund raising, and investment management costs. This section does not address FCCM. FCCM is not interest and is therefore allowable.

FAR 31.205-10 states: "Facilities Capital Cost of Money (cost of capital committed to facilities) is an imputed cost determined by applying a cost-of money rate to facilities capital employed in contract performance. A cost-of-money rate is uniformly imputed to all contracts. Capital employed is determined without regard to whether its source is equity or borrowed capital. The resulting cost of money is not a form of interest on borrowings." FCCM is allowable if the contractor's capital investment is measured and allocated to all contracts. CAS 414 addresses the methodology for computing FCCM. SCRA has demonstrated evidence that FCCM is charged against all active contracts and the computation of the FCCM conforms to the prescribed CAS. Accordingly, FCCM is determined to be an allowable cost under the grant.

Defense Logistics Agency Comments

Final Report
Reference

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AUDIT.XLS

Summary of Unallowable Charges Appendix B

DNISC COMMENT	Grant Recipient	Description of Charges	Amount Expended	DNISC	Action Taken Grant Recipient
Concur	University of Nevada at Reno	Interest on advances of funds	\$25,000.00	Notified grantee to remit interest earned	Remitted interest earned totaling \$35,348.64
Concur	University of Idaho	Meal costs	\$417.00	Notified grantee of unallowable charges	Corrected university accounting record by transferring charges for meals from federal account to university account
Concur		Interest on advances for funds	\$1,464.00	Notified grantee of unallowable charges	Remitted interest earned totaling \$1,464.00
Concur	University of Utah	Interest on advances to funds	\$3,442.00	Notified grantee to remit interest earned	Remitted interest earned totaling \$3,442.00
Nonconcur		Advanced funds used for equipment	\$5,000,000.00	See attached comment	
Nonconcur	South Carolina Research Authority	Meal Costs	\$170.00	See attached comment	
Concur		Income earned from grant funds	\$16,218.00	Notified grantee of the requirements for Program Income, IAW OMB A-110	SCRA recommitment \$16,218 of Program Income into the Plasma-Arc Program, IAW OMB Circular A-110, Attachment D
Nonconcur		Unrelated Travel	\$2,126.50	See attached comment	
Concur		Penalties & Contributions	\$176.00	Notified grantee of un- allowable charges	Credited grants account \$176.00

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AUDIT.XLS

Summary of Unallowable Charges
Appendix B

DNSC COMMENT	Grant Recipient	Description of Charges	Amount Expended	DNSC	Action Taken	Grant Recipient
Pending See comment	University of Texas at El Paso	Outside scope of grant project	\$864,000.00	Advise grantee to develop a Program Narrative, to meet the guidelines of OMB A-110		
Pending See comment	University of Texas at El Paso	Equipment in support of projects financed by foreign or domestic businesses and other government agencies	\$677,000.00	Advise grantee to develop a Program Narrative, to meet the guidelines of OMB A-110		
Pending See comment	University of Texas at El Paso	Incorrect Direct Charges	\$389,000.00	Advise grantee to develop a Program Narrative, to meet the guidelines of OMB A-110		
Pending See comment	University of Texas at El Paso	unearned indirect cost reimbursements	\$300,000.00	Advise grantee to develop a Program Narrative, to meet the guidelines of OMB A-110		

University of Texas at El Paso

COMMENT: After a review of the revised Program Narrative, DNSC staff will conduct a thorough analysis of the expenditures incurred against grant DN-009. DNSC staff will ensure that all charges against grant DN-009 are allowable and in accordance with the guidelines of OMB Circular A-110 and A-122. Charges not in accordance with established guidelines will be collected from the grantee. Additionally, milestones will be established to ensure immediate resolution to the recommendation provided by the DDIG.

Defense Logistics Agency Comments

DLA RESPONSE TO APPENDIX B

University of Utah

Advanced Fund used for Equipment

DLA COMMENT Nonconcur A management decision was made to grant an exception to DNSC's SOP, and approve an advance for equipment purchase This approval was granted to take advantage of the university's opportunity to acquire a more powerful computer than originally contemplated at no additional cost to the university or the Federal Government Additionally, an early purchase of this system provided considerable advantages to the program, by providing additional data processing assets, early training opportunity for university staff, and technically superior equipment to meet the specific needs and goals of the universities research projects

South Carolina Research Authority

Meal Costs

DLA COMMENTS Nonconcur Audit states that costs for meals totaling \$168 94 were not allowed per OMB Circular A-122, Attachment B, Section 12 This section entitled Entertainment Costs, states that costs of amusement, diversions, social activities, ceremonial, and costs relating to meals are unallowable SCRA has advised that the questioned costs for meals were for business lunches resulting from scheduled meeting directly associated with the Plasma-Arc Program In accordance with OMB Circular A-122, attachment B, Section 24, costs associated with the conduct of meetings, including cost of meals, are allowable

Unrelated Travel

DLA COMMENT Nonconcur Travel costs totaling \$2,126 50 were not allowed per OMB Circular A-122, Attachment B, Section 33 This section entitled Preaward Costs, states that preaward costs incurred prior to the effective date of the award are allowable to the extent that they would have been allowable if incurred after the date of the award, and only with written approval

The Standard Form 424 was executed by the Defense National Stockpile Center on 12 February 1990 Travel costs in question were incurred in May 1991 and, accordingly cannot be construed as preaward costs Part III - Budget information section of Standard Form 424 requires the grant applicant to provide a breakdown of projected expenditures for the overall project Included in this breakdown is projected expenditures for travel, and SCRA estimated its travel requirement to cost \$37,751 00 Since this budget contains a cost line item for travel related to the Plasma-Arc project, additional written approval from the awarding agency is not required

Audit Team Members

Thomas F. Gimble
Mary L. Ugone
William Lamb
Hugh G. Cherry
Suzette Luecke-Weitzel
Lisa Novis
Philip T. Davis
Kathleen Gant
Lance Norrington
Nancy C. Cipolla
Paula Hazlewood

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Administration of Grants by the Defense National Stockpile Center

B. DATE Report Downloaded From the Internet: 03/20/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 03/20/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.